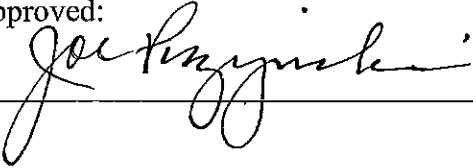


COUNCIL POLICY TOWN OF LOS GATOS

Subject: General Fund Reserve Policy

Pages: 3

Approved:



Effective Date:

May 16, 2011

Revised Date:

N/A

BACKGROUND

General Fund reserves are classified into two categories: Restricted and Designated. Restricted reserves are those which are restricted and not considered available due to financial, accounting, or legal restrictions. Designated reserves are established by Council policy for an intended purpose and are available for use per Council direction.

GUIDING PRINCIPLES

Following sound financial practices and adhering to the Government Finance Officers' of American (GFOA) recommendations, the Town's designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Volatility of revenue structure
- Changes in political environment
- Frequency of operating surpluses/deficits
- Cash flow management practices

PURPOSE

The purpose of this policy is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the financial impacts associated with a disaster or catastrophic event;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

POLICY

Reserve Level

The Town currently sets aside funds into three key designated reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, and key infrastructure and capital projects. These include the Catastrophic Reserve, Budget Stabilization Reserve, and Capital and Special Projects Reserve.

The Town commits to maintaining these reserves at a minimum of 25% of General Fund ongoing operating expenditures (minus one-time expenditures), equally divided between the Catastrophic Reserve (12.5%) and Budget Stabilization Reserve (12.5%), excluding the Capital and Special Projects Reserve. The General Fund Reserve Policy is to be reviewed by the Town Council as part of the annual operating budget review and adoption process. Appropriations of General Fund reserves require formal Council authorization.

Should a catastrophic disaster or loss of the Town's single highest source of sales tax revenue occur, the required reserve level should be adequate to meet the Town's immediate financial needs. For example, in the event of natural disaster, the Catastrophic Reserve would provide necessary coverage for basic operating expenses, including salary and benefits for safety and non-safety Town employees, while still meeting debt service obligations for approximately 60 days. This time frame would enable the Town to explore other available cash alternatives, including the use of internal service funds. Likewise, should the Town experience a loss of a primary sales tax contributor, the reserve level in the Budget Stabilization Fund would provide for a 3 year transition period, giving the Town adequate time to realign its operating costs with available resources, while minimizing service impacts.

Catastrophic Reserve

Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, such as a disaster or catastrophic event. Should unforeseen and unavoidable events occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve Catastrophic Reserve appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

Budget Stabilization Reserve

Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time uses that will result in future efficiencies and/or budgetary savings. Examples of "economic triggers" and one-time uses include, but are not limited to:

- Significant decrease in property or sales tax, or other economically sensitive revenues;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in revenue due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Capital and Special Projects Reserve

Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the Town 5-year Capital Improvement Plan, as there is no ongoing funding source to support the Town's capital needs.

Replenishment of Unreserved Fund Balance

In keeping with the principles discussed in this policy, when either fund is used, Town Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding one-time expenditures.


Excess Fund Balance

At the end of each fiscal year, the Finance and Administrative Services Department reports on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end surplus which results in the General Fund fund balance exceeding the level required by the reserve policy shall be available for allocation for the following, subject to Council approval:

- Offset projected future deficits
- Anticipated intergovernmental fiscal impacts
- One-time funding, non-recurring needs

Upon funding of the above, any remaining surplus balances shall be divided equally between the Budget Stabilization Reserve and Capital and Special Projects Reserve for appropriation within the Capital Improvement Program budget.

APPROVED AS TO FORM:



Judith Propp, Town Attorney